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SUBJECT: BRAZIL SCENESETTER: DR. TODD STERN, SPECIAL ENVOY FOR
CLIMATE CHANGE, AUGUST 4-6

(U) This message is sensitive but unclassified, please treat
accordingly.

¶1. (SBU) SUMMARY: In spite of its relatively clean energy matrix, Brazil is a major greenhouse gas emitter primarily due to massive, ongoing deforestation. The Ministry of Exterior Relations (MRE) has pursued a cautious, defensive approach in international climate change negotiations, steering clear of any explicit or implicit obligations to control or reduce emissions. In the international climate negotiations, Brazil is a major player with outsized influence on many issues, particularly on offset mechanisms. In June, President Lula suggested in a Reuters interview that Brazil might be willing to take on targets. This more ambitious stance is something that Environment Minister Carlos Minc has been advocating for months and the MRE has been reluctant to embrace. Your visit comes at an opportune time as Brazil considers what it should do in the negotiations leading up to the summit in Copenhagen.

¶2. (SBU) Overall, the relationship between the United States and Brazil is productive and broad-based, with growing economic ties. Through the financial crisis, Brazil has played a constructive role in the G20 and has also prioritized concluding the Doha round of World Trade Organization negotiations. The country has the potential to play a major role in promoting global energy security. The Brazilian government seeks to develop a global market for biofuels and also to bring into production its vast, new off-shore oil and gas discoveries. END SUMMARY.

THE ENVIRONMENT AND CLIMATE CHANGE

¶3. (SBU) Domestically, Brazil pursues two sometimes conflicting goals with regard to the Amazon region. On the one hand, it seeks to preserve the natural resources and biodiversity found there. To that end, the law stipulates that landowners in the Amazon region are supposed to preserve eighty percent of forest on their lands, and the government has placed large amounts of the forest into protected areas, such as national parks and indigenous reserves. At the same time, the national government, states and municipalities seek economic growth and employment for the approximately 25 million inhabitants of the region. Since the 1970s the national government has built a network of roads through the Amazon, which has opened the region to timber and agriculture (mainly cattle and soybean) interests.

¶4. (SBU) Massive and ongoing clearing of the Amazon Forest releases large quantities of carbon dioxide into the atmosphere. The Brazilian government's only greenhouse gas emissions inventory for 1994 (a new one based on data from 2000 is in the works) estimated that about 75% of the country's green house gas emissions come from changes in land use and deforestation. That percentage is dropping as the deforestation rate has declined and during the same period industry and the rest of the economy have been growing. Post estimates that by 2015 other sources of greenhouse gas emissions will surpass the quantities released due to deforestation. From 1970-2000, Brazil's ranked 6th in the world for cumulative carbon dioxide (CO₂) emissions - the country emitted 51,000 metric tons of

CO₂ (including land use), about six percent of the global total. During the same time period, the United States emitted 137,000 metric tons of CO₂ (including land use), about sixteen percent of the global total, and was ranked number one. For 2000, the most recent year for which landuse data are available, Brazil's emissions including land use were 2,325.1 Mton CO₂-equivalent, or 13.4 tons/person. This made them the 5th largest emitting country, or 38th in per capita terms.

¶5. (SBU) The Brazilian government has stepped up efforts to combat deforestation, most of which is illegal and takes place primarily on public lands. The government still has not been able to establish an effective presence in the vast Amazon, leaving ranchers and farmers free to clear government land with relative impunity. The national government, some state and local governments, non-governmental organizations (NGOs), and the business community have developed various initiatives to try to curb the deforestation rate. In October 2008, the national Amazon Fund received a pledge of up to one billion dollars from Norway through 2015 and since then Germany has agreed to contribute several million dollars. To date, this fund has not approved any projects nor disbursed any funds. The State of Amazonas, which includes roughly half the Amazon forest, created the Foundation Sustainable Amazonas (FAS) to reduce deforestation by providing regular payments to residents in state reserves for protecting the forest. The FAS has received pledges of nearly USD 30 million, including from Marriott Hotels and Coca-Cola. Various NGOs, such as the Moore Foundation and The Nature Conservancy, have programs to encourage conservation and to prevent more of the Amazon from being turned into pastures and soybean fields.

¶6. (SBU) The government has stepped up enforcement efforts to stop
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illegal clearing and to deny financial credits to farmers and ranchers operating illegally in the Amazon. These efforts, combined with a drop in agriculture commodity prices, are expected to result in a significant decrease in the deforestation rate this year. The rate of deforestation has fallen from its peak in 2004 of about 24,000 square kilometers to 12,000 square kilometers last year. It is estimated to come in under 10,000 square kilometers this year. In December 2008, the Brazilian government announced as part of its national climate change plan the domestic goal of reducing the deforestation rate to under 7,000 square kilometers by 2017, which would be nearly a two-thirds reduction from the average before ¶2005.

¶7. (SBU) Brazil is a relatively "green" country. Hydropower provides around 85% of Brazil's electricity, and passenger cars now use more ethanol than gasoline. However, in order to meet growing demands for electricity that cannot currently be met through hydropower, the Brazilian government may resort more often to fossil fuels (which currently provide less than nine percent of Brazil's electricity), though they are actively seeking ways to further diversify their energy matrix.

¶8. (SBU) In international climate change negotiations, Brazil has been far less bold and innovative, along with China and India, contending that only developed countries should be required to assume emission reduction targets. In the negotiations, in addition to the overall architecture of an international climate agreement, Brazil has traditionally been very focused on issues like historical responsibility, burden-sharing, and how best to address offsets. Recently Brazil offered that it and other developing countries will register their Nationally Appropriate Mitigation Actions (NAMAs), which for Brazil could include projects to Reduce Deforestation and forest Degradation (REDD) and reforestation projects. While NAMAs would be monitored and verified, there would be no binding commitments about implementing them or what results they will produce.

¶9. (SBU) Some within the Brazilian government want Brazil to take a position of leadership on climate change. Although he has yet to persuade the Ministry of Exterior Relations (the lead on climate change negotiations), Environment Minister Carlos Minc has said Brazil and other developing countries should take on emissions

reductions targets in return for financial assistance and technology transfer. In early June, President Lula suggested in a Reuters interview that Brazil might be willing to take on emissions targets.

His predecessor, former President Fernando Henrique Cardoso, wrote an editorial in mid-June calling on Brazil to do just that. While Minister Minc may have limited influence over shaping Brazil's negotiating position, President Lula and his closest advisor and presidential candidate, Minister Dilma Rousseff have much more. They could steer Brazil's international negotiating policy toward a more pro-active, ambitious course and away from the current cautious and defensive tack pursued by the Ministry of Exterior Relations.

POLITICAL OVERVIEW

¶10. (SBU) With democracy re-established in 1988 after decades of military dictatorship, Brazil's democratic institutions are generally strong and stable. President Luiz Inacio Lula da Silva remains a popular president - one of the most popular in Brazil's history and indeed in the world today, with recent approval ratings as high as 68% - as a result of his orthodox economic policies and expanded social programs. In the Congress, ongoing public scandals involving the leadership of the Senate and various members of congress have led to low ratings for the institution among the Brazilian public. Increasingly, the court system has taken steps to curb impunity among public officials. These steps have been well received by a public accustomed to abuses by authorities. Much of the Brazilian political elite is already looking forward to the October 2010 federal elections (president, senators and deputies). Lula is constitutionally barred from seeking a third term as President and has designated his Chief of Staff, Minister Dilma Rousseff as his successor. Lula's personal popularity has thus far not transferred, and at this point the race remains unpredictable. The current leading candidate to be the next president is Governor of the State of Sao Paulo Jose Serra, though Rousseff has been closing the popularity gap. Brazilian politicians increasingly have an eye on the elections in their public statements and actions.

¶11. (SBU) The United States and Brazil share many common goals, including fostering hemispheric stability and drug transit activity.

The attainment of a permanent seat on the UN Security Council has been a central goal of Brazil's foreign policy under President Lula's government. Regionally, Lula has maintained Brazil's historic focus on stability, seeing dialogue and good relations with all parties as the best way to achieve this goal. As a result, Brazil maintains an active dialogue with Venezuela and Cuba, has worked to foster good relations with Bolivia, has given its

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assistance in resolving the FARC hostage crisis in Colombia, and has stood firmly on the principle of respect for sovereignty in the region.

ECONOMIC OVERVIEW

¶12. (SBU) Brazil is the tenth largest economy in the world and received investment grade from Standard and Poor's and Fitch in 2008. Annual Gross Domestic Product (GDP) grew 5.1 percent in 2008, and inflation was 5.8%. Prospects for 2009 have been dimmed by the global economic crisis, taking previous predictions for annual GDP growth from four per cent to an essentially flat or slight recession scenario for 2009. Brazil has thus far weathered the crisis better than most major economies, due in large part to its conservative macroeconomic policies. In fact, the economy is now showing early signs of recovery and the government is predicting positive growth in the last part of the year.

¶13. (SBU) Brazil is a major producer and exporter. Agriculture makes up 36 percent of exports, and the agribusiness sector accounts for 25% of Brazil's GDP. Brazil is a leading exporter of soybeans, beef, sugar, coffee, and orange juice. Brazil also distinguishes itself as a major exporter of civilian aircraft, steel, and petrochemicals. The United States is Brazil's top trading partner overall, and China has moved into first position as Brazil's primary export destination.

¶14. (SBU) Foreign direct investment in Brazil is increasing, with

inflows of USD 44 billion in 2008; USD 6.9 billion came from the United States. Brazilian investment in the United States almost tripled between 2001 (USD 1.4 billion) and 2006 (USD 3.9 billion). President Lula has been actively selling Brazil (including at a Wall Street Journal sponsored investment conference in Brazil earlier this year) as a solid investment destination during the financial crisis due to its sound macroeconomic policies and relatively strong economy.

¶15. (SBU) Despite progress in recent years, income distribution in Brazil remains grossly unequal, with 10 percent of the population holding over 50 percent of the nation's wealth. Brazil is home to 50 percent of the people who live in extreme poverty in Latin America. President Lula's social programs, combined with formal sector job growth and real increases in the minimum wage, have reduced income inequalities each year since 2004.

¶16. (SBU) Millions of Brazilians have moved into the middle class over the last few years. Nevertheless, roughly forty percent of the population lives in poverty, a problem that can only be addressed by sustained long-term growth. Unfortunately, major structural challenges to long-term growth include a complicated and onerous tax structure, high interest rates, and cumbersome labor and business regulations. As a result of its regulatory structure, Brazil ranks 125th in the World Bank Group's Doing Business assessment of regulatory climate in 181 countries. The informal sector (one of the largest among large developing economies) constitutes an estimated 40 percent of Brazil's economy, in large part in response to the onerous tax and regulatory requirements to participate in the formal economy. President Lula has vigorously pursued a national Growth Acceleration Program (PAC) to increase infrastructure investment in energy, transportation, and sanitation/housing, a program that has received increased funding as a countercyclical measure in the face of the economic crisis.

¶17. (SBU) The global financial crisis has affected Brazilian companies' exports and access to credit. Brazil's Finance Minister continues to assert that Brazil is well-positioned to weather the crisis while he and Central Bank contacts confirm moves to try to mitigate the effects of the crisis. President Lula, taking a leading role in the debt over how to handle the economic crisis including through the G20 process, has criticized actors in developed countries for sparking a crisis that affects developing countries. He has called for increased regulation of the global financial system, increased global access to trade finance, and an expanded role for large emerging countries like Brazil in international financial institutions such as the International Monetary Fund. The government has reacted to the economic downturn thus far with a series of actions aimed at increasing liquidity in the banking system, stimulating growth through a series of targeted tax cuts, and seeking to shore up exports.

ENERGY - BIOFUELS AND LARGE OFF-SHORE OIL AND GAS DISCOVERIES

¶18. (SBU) For Brazil, turning ethanol into a world commodity is a key aspect of increasing energy security. Though Brazilian ethanol is produced from sugar cane, Brazil sees expansion of the global ethanol market, regardless of feed stock, as a key interest. In March 2007, the United States and Brazil signed a Memorandum of Understanding (MOU) on biofuels cooperation. As a result,

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scientists and laboratories from the two countries are collaboratively researching next generation biofuels technologies. We are also working together in various multilateral fora to develop international biofuels standards and sustainability criteria. By making it easier to treat biofuels as a tradable commodity, these standards should foster the emergence of a vibrant global biofuels market.

¶19. (SBU) The United States and Brazil are jointly assisting a group of developing countries in creating their own biofuels markets, with the goal of reducing their dependence on imported oil. The joint cooperative effort initially targeted four countries: Haiti, St. Kitts, El Salvador, and the Dominican Republic. In November 2008, five new countries joined the group: Guatemala,

Guinea-Bissau, Honduras, Jamaica, and Senegal. Brazil would like to see the United States aggressively expand these cooperation efforts to include developing countries in Africa and Southeast Asia, both as a development tool and as a way to increase the commodity market for ethanol.

¶20. (SBU) Modest tax breaks have stimulated the Brazilian domestic ethanol market and have led new car purchasers to opt overwhelmingly for "flex-fuel" cars that can run on gasoline, ethanol, or any combination of the two. In 2008, ethanol surpassed gasoline as the dominant automotive fuel. Domestic demand consumes 85 percent of all production. The other 15 percent is exported, primarily to the United States, making our ethanol import surcharge a continuing irritant in bilateral relations. The Brazilian government also uses mandates to promote greater use of biodiesel.

¶21. (SBU) The discovery in 2007 of potentially massive offshore ("pre-salt") reserves of oil and gas estimated to contain between 30-80 billion barrels of oil equivalent could put Brazil within the top ten oil countries by reserves. Though the discoveries have generated a great deal of excitement, industry observers caution that developments will probably be slow in coming due to the expensive technological challenges involved with ultra-deepwater drilling, including a worldwide shortage of equipment such as drilling rigs.

¶22. (SBU) Brazil and the United States have many other common areas of interest in the energy sector. The convergence of our interests offers opportunities to enhance both countries' national energy security. Building on the success of the biofuels relationship, Brazil and the United States have recently undertaken a series of dialogues to identify the promising areas of energy cooperation between our two countries. An existing Memorandum of Understanding between the U.S. Department of Energy and Brazil's Ministry of Mines and Energy provides the legal framework for an ambitious list of possible projects which could include cooperation on wind and solar, clean coal, energy efficiency, nuclear, hydroelectricity, and deep sea oil and gas exploration. While many of these have implications for climate change, the possible cooperation on clean energy sources such as wind and solar are particularly of interest, as is a new model for hydro that Brazil is advocating which reduces the environmental impact of large scale hydro projects (i.e. eliminates the need for flooding) and which they would like to use a model for developmental assistance in developing countries such as Haiti. An area of concern is how Brazil will choose to handle the attendant gas in its deep sea (or pre-salt) oil finds. Without a means of processing or transporting the gas, which is too far from land to commercially exploitable using currently available techniques, there is the possibility that Brazil will choose to flare the gas. We are looking for ways to partner with them to identify other means through which they might make use of this resource.

¶23. (SBU) The United States also has commercial interests, particularly in nuclear energy, as Brazil looks to expand its civilian nuclear energy program. For example, Westinghouse is in the running to build four to eight new nuclear reactors in Brazil over the next ten years. The USG would like to parlay these and other shared interests into support for a hemispheric energy cooperation. There are many opportunities for joint cooperation including research and development, energy efficiency, and green technologies. Brazil has expressed particular interest in exploring energy efficient housing for low-income citizens under the Energy and Climate Change Partnership of the Americas.

OVERVIEW ON BRAZILIAN MEDIA AND PUBLIC ATTITUDES TOWARDS THE USA

¶24. (SBU) Public opinion polling shows the election of President Barack Obama has influenced views of the United States in a positive way. An Office of Research Opinion Analysis released in March 2009 found that seven-in-10 Brazilians believe the Obama presidency will be positive for Brazil and the world. Economically, Brazilians say their future lies with the United States and China. The July 23 Pew Global Attitudes Survey found that a majority of Brazilians hold a favorable view of the United States (61%) and believe President

Obama will "do the right thing in world affairs (76%)," with 74% expecting that he will follow a multilateral approach to foreign policy. Nevertheless, while 59% of Brazilians think of the U.S. as more of a partner, 49% currently say that U.S. economic influence on their country is negative. The report also indicates that by a wide margin over other survey countries, Brazilians (90%) believe that global warming is a very serious problem. Roughly eight-in-ten (79%) of Brazilians agree that the environment should be protected even if it slows economic growth and costs jobs. Less consensus exists as to whether people should be willing to pay higher prices to address climate change, with only 48% supporting higher prices and 41% disagreeing with such an approach.

¶25. (SBU) Brazilian journalists, generally speaking, cannot be described as "pro-U.S." Some may be favorably disposed toward the U.S. position on particular issues, such as free trade, and many are professional and evenhanded in their treatment of the United States, even if they do not personally agree with U.S. policies. Some mainstream Brazilian opinion writers demonstrate biases against U.S. policies, though the trend has started to change with the election of President Obama. A small segment of the Brazilian public, including the elite, accepts the notion that the United States has a campaign to subjugate Brazil economically, undermine it culturally, and militarily occupy the Amazon. Such attitudes and beliefs have influenced Brazilian reporting and commentary on issues such as the reestablishment of the U.S. Navy's Fourth Fleet (which has been characterized as a threat to Brazil's offshore pre-salt finds) and U.S. activities in the Amazon. That said, the Brazilian media have reported favorably on U.S. efforts at this year's meeting of the General Assembly of the Organization of American States and the Summit of the Americas, and the Obama Administration overall, signaling a change in perspective with regards to U.S. intentions in Brazil and the region at large.

PERSONAL SECURITY SITUATION IN BRAZIL

¶26. (SBU) Political and labor strikes and demonstrations occur sporadically in urban areas and may cause temporary disruption to public transportation. Naturally, protests anywhere in the world have the potential to become violent. In addition, criminal organizations, during 2006, staged several violent campaigns against public institutions in the Sao Paulo State leading to a large number of deaths. While it is unlikely that U.S. citizens would be targeted during such events, U.S. citizens traveling or residing in Brazil are advised to take common-sense precautions and avoid any large gatherings or any other event where crowds have congregated to demonstrate or protest.

¶27. (SBU) Crime throughout Brazil (especially Rio de Janeiro) has reached very high levels. The Brazilian police and the Brazilian press report that the rate of crime continues to rise, especially in the major urban centers - though it is also spreading in rural areas. Brazil's murder rate is more than four times higher than that of the United States. Rates for other crimes are similarly high. The majority of crimes are not solved.

¶28. (SBU) Street crime remains a problem for visitors and local residents alike, especially in the evenings and late at night. Foreign tourists are often targets of crime and Americans are not exempt. The incidence of crime against tourists is greater in areas surrounding beaches, hotels, discotheques, bars, nightclubs, and other similar establishments that cater to visitors. This type of crime is especially prevalent during Carnaval (Brazilian Mardi Gras), but takes place throughout the year. While the risk is greater at dusk and during the evening hours, street crime can occur both day and night, and even safer areas of cities are not immune.

¶29. (SBU) At airports, hotel lobbies, bus stations and other public places, incidents of pick pocketing, theft of hand carried luggage, and laptop computers are common. Travelers should "dress down" when outside and avoid carrying valuables or wearing jewelry or expensive watches. "Good Samaritan" scams are common. If a tourist looks lost or seems to be having trouble communicating, a seemingly innocent bystander offering help may victimize them. Care should be taken at and around banks and internationally connected automatic teller machines that take U.S. credit or debit cards.

¶30. (SBU) Travelers using personal ATMs or credit cards sometimes

receive billing statements with non-authorized charges after returning from a visit to Brazil. The Embassy and Consulates have received numerous reports from both official Americans and tourists who have had their cards cloned or duplicated without their knowledge. Those using such payment methods should carefully monitor their banking online for the duration of their visit.

SOBEL